



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



**FILE COPY**

**DARLENE GREEN**  
Comptroller

**DR. KENNETH M. STONE, CPA**  
Internal Audit Executive

*Internal Audit Section*

1520 Market St., Suite 3005  
St. Louis, Missouri 63103-2630  
(314) 657-3490  
Fax: (314) 552-7670

November 7, 2011

The Honorable Darlene Green, Comptroller  
Department of Finance  
1200 Market Street, Room 212  
St. Louis, MO 63103

RE: Franchise Utility Taxes (Project #2011-03)

Honorable Comptroller Green:

Enclosed is the Internal Audit Section's process review report of the Comptroller's Office - Franchise Utility Taxes, for the period July 1, 2009 through June 30, 2010. A description of the scope of the work is included in the report.

Fieldwork was completed on July 28, 2011. Management's responses to the observations and recommendations, noted in the report, were received on October 26, 2011 and have been incorporated into the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Dr. Kenneth M. Stone, CPA  
Internal Audit Executive

Enclosure

cc: John Zakibe, Deputy Comptroller



# CITY OF ST. LOUIS

**DEPARTMENT OF FINANCE - COMPTROLLER'S OFFICE**

**FRANCHISE UTILITY TAXES**

**PROCESS REVIEW**

**JULY 1, 2009 THROUGH JUNE 30, 2010**

**PROJECT #2011-03**

**DATE ISSUED: NOVEMBER 7, 2011**

**Prepared by:  
The Internal Audit Section**



## OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**CITY OF ST. LOUIS**  
**DEPARTMENT OF FINANCE - COMPTROLLER'S OFFICE**  
**FRANCHISE UTILITY TAXES**  
**PROCESS REVIEW**  
**JULY 1, 2009 THROUGH JUNE 30, 2010**

**EXECUTIVE SUMMARY**

**Purpose**

Franchise Utility Taxes was selected for review based on the annual risk assessment. The purpose was to determine if the internal controls at the Comptroller's Office - Finance Department effectively and efficiently managed risks in achieving the following goals and objectives:

- Compliance with applicable laws, regulations, policies and procedures applicable to goals and objectives.
- Safeguarding of assets.
- Reliability and integrity of financial and operational information.
- Economic and efficient use of resources.

**Scope and Methodology**

The scope of the period included franchise utility taxes received from the period July 9, 2009 through June 30, 2010. The review was confined to evaluating internal controls over the fiscal activities relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Observation of relevant processes.
- Reviews for compliance with policies and procedures, as well as applicable laws and regulations applicable to goals and objectives.
- Limited tests of controls.
- Follow-ups on prior audit observations.
- Other necessary procedures were performed.

**Background**

A franchise tax is charged on the gross receipts of utility companies operating within the City of St. Louis. This includes sales of electricity, natural gas, telephone services, water and steam, and on the gross receipts of the Airport. The tax is passed on to the consumers by the utility companies and is collected and paid to the city.

## EXECUTIVE SUMMARY

### Exit Conference


An exit conference was conducted at the Comptroller's Office on October 26, 2011. The Deputy Comptroller and the Accounting Manager II in the Financial Reporting Section represented the Comptroller's Office. The Auditor II and the Auditor-in-Charge represented the Internal Audit Section.

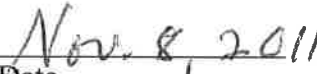
### Conclusion

The Comptroller's Office adequately addressed internal controls and risk relating to the goals and objectives noted above, except for the following observation:

Develop written policies and procedures for processing franchise utility taxes

The observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

  
Dr. Kenneth M. Stone, CPA  
Internal Audit Executive

  
Date

**CITY OF ST. LOUIS  
DEPARTMENT OF FINANCE - COMPTROLLER'S OFFICE  
FRANCHISE UTILITY TAXES  
PROCESS REVIEW  
JULY 1, 2009 THROUGH JUNE 30, 2010**

**TABLE OF CONTENTS**

<b>Description</b>	<b>Page(s)</b>
<b>OBSERVATIONS</b>	
Status of Prior Observations	1
Summary of Current Observations	1
<b>DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES</b>	2

## **OBSERVATIONS**

### **Status of Prior Observations**

There were no prior reviews performed on franchise utility taxes.

### **Summary of Current Observations**

Some control strengths in processing the franchise taxes were noted. These included, but were not limited to the following:

- Checks are logged and adequately secured.
- Formulated spreadsheets divides funds into pre-determined percentages, which reduce the probability of calculation errors.
- Revenues are reconciled to the general ledger to ensure account accuracy.
- The recording, depositing and reconciliation duties were properly segregated.

The opportunity exists for management to improve internal controls over the Financial Reporting Section's fiscal activities. The following observation resulted from the review:

Develop written policies and procedures for processing franchise utility taxes

This observation is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

## **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES**

### **Develop Written Policies And Procedures For Processing Franchise Utility Taxes**

The Comptroller's Office does not have written accounting policies and procedures for processing franchise utility taxes. Written policies and procedures provide a basis for training and cross-training of new and current employees, and provide a basis for the development of performance standards and measures.

Management agreed with the recommendation but, due to time constraints, did not have an opportunity to update the procedures manual to include franchise taxes. The lack of written procedures increases the risks that:

- Control procedures will not be performed or may be over-ridden.
- Employees will not be adequately trained.
- Appropriate performance standards and measures may not be developed.

### **Recommendation**

It is recommended that the Comptroller's Office update the policies and procedures manual to include franchise taxes. The Comptroller's Office should consider including the following in implementing the policies and procedures:

- Approval by the appointing authority and date approved.
- Formal communication to appropriate staff.
- Periodic review and update.

### ***Management's Responses***

*Written policies and procedures will be developed. March 31, 2012 is the expected completion date.*